Chasell, E.D.

The case for and against tax exemption of U.S. ...

[S.l.]

[1918]

97-84142-4
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

Chassell, E D
The case for and against tax exemption of U.S. government bonds and federal farm loan bonds, compiled by E.D. Chassell and Kingman Nott Robins.
38 p. 24½ cm.

From an address prepared by E.D. Chassell for the Nebraska bankers association, December, 1918.

ONLY ED.

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 12:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 7/10 INITIALS: TLM

TRACKING # : 21548

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

The Case For and Against Tax Exemption

OF

U. S. GOVERNMENT BONDS

AND

FEDERAL FARM LOAN BONDS

Compiled by

E. D. CHASSELL

AND

KINGMAN NOTT ROBINS

Summary of Arguments For and Against Tax Exemption of Federal Bonds and Federal Farm Loan Bonds

Arguments For Tax Exemption

1. Expediency

Complete tax exemption of the first Liberty Bond issue, the Federal Farm Loan Bonds and Joint Stock Land Bank Bonds, and partial exemption of the second, third and fourth Liberty Bond issues, was provided to make them sell readily; no calculation was apparently made of the loss in taxes which the Government would suffer as a penalty for this undoubted advantage in salability.

2. Public Necessity

Tax exemption of the bond issues of the Federal Land Banks and Joint Stock Banks is urged by the responsible authorities as necessary to the life of the system, and it is argued that anything that helps farmers helps the country and that, for that reason, it is proper to give these institutions the special privilege of tax exemption in order to make their securities salable.

Arguments Against Tax Exemption

1. Tax Exemption is Inexpedient and Unscientific

Tax exemption runs directly counter to the accepted principles that taxation should, as far as possible, be proportionate to ability to pay or benefits received. This is particularly true under the operation of a sharply graded income tax. The appeal of the tax-exempt security to investors increases in proportion to their tax burdens—the greater the burden, the greater the appeal. Inevitably the market price for tax-exempt securities is fixed by the demand of those investors who escape the heaviest tax burdens by owning such securities. This market price is too high to attract other investors, with the result that the ownership of tax-exempt securities tends to concentrate in the hands of those who would otherwise pay the heaviest taxes.

The result is not only injustice to the taxpayers as a whole, because of the shifting of the burden from the shoulders of those best able to bear it; it is also costly. If the facts supported the contention that what is lost in taxes is made up by saving in the amount or rate of interest paid by the borrower, the prices for tax-exempt bonds and taxable bonds would vary in direct ratio to this apparent saving. Obviously, this is not the case. At the present market, the spread in yield between the tax-exempt First Liberty Loan and the subsequent issues is less than 1%, whereas the recipients of incomes in the upper brackets under the pending revenue bill derive as much net return from the 3½% tax-exempt bonds as they would from taxable bonds yielding from 10% to 12%. To further illustrate, the spread in yield at the present market between the tax-exempt 5% Federal Farm Loan Bonds and similar securities without Federal subsidy in the form of tax exemption, is 1% at the most, whereas the recipient of an income in the higher brackets of the present law gets as high a net return on these Federal Farm Loan Bonds as he would on a taxable security yielding 12% to 15%.

In other words, the so-called saving to the borrower afforded by the privilege of having his obligation exempted from taxation is far less than

12 Feb. 1920 - C.R.W.

the total in taxes that this exemption costs the State, or shifts from the large to the small taxpayer.

To put this loss concretely, under the present law a tax-exempt security yields the recipient of an income of $1,500,000 to $2,000,000 a total exemption from Federal tax alone of 66%. Local taxes are assessed on capital rather than on income. A tax of one-half of one per cent, or $5.00 on $1,000.00, is a very modest estimate of the value of exemption from all state, county and local taxation, which, added to the Federal tax exemption, gives a total exemption of $38.00 every year out of the $50.00 total income on a $1,000.00 5% Federal Farm Loan Bond. Careful observation and thorough analysis of reports from the loaning field of the banks operating under the Federal Farm Loan Act show that over 80% of their loans are now made in localities where the spread between the rate to the borrower on taxable farm mortgages and the rate on the loans of the Federal Farm Loan Banks does not exceed one-half of one per cent. In other localities, where pioneer conditions and climatic uncertainties increase the hazards, a spread of one per cent is sometimes found. In the first instance, the borrower gains $5.00 as compared with a loss of $38.00, a loss of more than seven to one. In the last instance, the borrower gains $10.00 a year, on a $1,000.00 loan, or only a trifle more than one-fourth of what is lost in taxes on the $1,000.00 bond.

Owing to the fact that there seem to be no obtainable figures on the total of outstanding tax-exempt securities in the United States, the money total of the possible loss or shifting of taxation due to these exemptions cannot be calculated. It may be illustrated, however, by the fact that if as much as one-half of the outstanding farm mortgage indebtedness of the country were in the form of Federal Farm Loan Bonds, under the present revenue law the Federal Government alone would conceivably lose $66,000,000 in exemptions.

The fallacy of the argument for tax exemption on the ground of expediency seems, therefore, apparent.

2. Tax Exemption Not a Public Necessity

The argument that the exemption from taxation of the Federal Farm Loan Bonds and the Joint Stock Land Bank Bonds is necessary to the life of the system is hardly borne out by the consideration that when this privilege was first put in effect the income taxes were not high enough to give the bonds their present preëminent position of attraction to the wealthy investor. The present advantage is purely adventitious and was not, by the framers of the Act, expected.

Even if the privilege were vital to the system, it might be questioned whether a system which, under the provisions governing its operations, could serve at the most not more than one farmer in five, and which, in actual operation, bestows its benefits on a group so limited that for every family benefited 604 families bear additional burdens, is of sufficient public necessity to warrant departure from all the precedents of American institutions and the principles of the United States Constitution. Such advantages as may accrue to farmers from the Federal Farm Loan System should be based on superior efficiency and Government supervision rather than special privileges which make the system and its beneficiaries the wards of the Government, dependent on public charity.

The argument against the fact of there being a public necessity for this special privilege is concretely supported by the natural clamor of other classes or groups of the population for similar privileges, as illustrated by H. R. 8827, providing a system of Federal personal credit banks

financed by tax-exempt issues, and the demand of the American Federation of Labor for similar assistance in financing wage-earners in the purchase of homes. The precedent of tax exemption for the borrowings of special classes of the population, followed to its logical conclusion, involves the exemption of the borrowings of all and the nullification of the power of Government to tax securities or intangibles. The result would be virtually a single tax on real property, and directly counter to enlightened theories of taxation. Public necessity seems, therefore, to call rather for the abolition of exemptions than for their retention or extension.

3. TAX EXEMPTION IS UNJUST AND INEQUITABLE

Tax exemption nullifies the equitable working of a graduated income tax, otherwise coming to be generally recognized as the most equitable of taxes in its incidence, for those required by a graduated income tax to pay the heaviest rates are the most likely to escape taxation entirely by investing their funds in tax-exempt securities.

A committee appointed by the National Tax Association to recommend a model plan for State and local taxation made the following statement on page 14 of their report, prepared for the conference of the Association November 12-15, 1918:

> "We are aware that, under the unreasonable and unworkable requirements of the general property tax, it has appeared desirable in times past to exempt State and local bonds from taxation, to exempt real estate mortgages and to grant various other exemptions. All such exemptions are inconsistent with the theory of the tax we here propose, and should be discontinued as rapidly as the circumstances of each case permit. * * *
>
> "The personal obligation of the citizen to contribute to the support of the Government under which he lives should not be affected by the form his investments take, and to exempt any form of investment can only bring about an unequal and therefore an unjust distribution of this tax. Our reasoning applies, of course, to the exemption which *agencies of the Federal Government now enjoy.*"

Tax exemption is unjust also as applied to Federal issues, because it unfairly and unfavorably affects the market value of taxable bonds in the hands of purchasers in good faith. The simultaneous offering of taxable Liberty Bonds to yield 4¼% and of increasing amounts of 5% tax-free Federal Farm Loan Bonds is the most serious instance of this injustice, especially as the Federal Farm Loan Bonds are offered as "instrumentalities of the United States Government," and the "moral obligation" of the Government. The inevitable effect of these conflicting offerings is to depress the market value of the taxable bonds. Moreover, tax exemption creates a distinction in the value of the securities in the hands of their holders, depending on whether they are wealthy or otherwise, which is unfair to the less favored holders, especially when they are asked to buy them on grounds of patriotism. More serious still, a tax-exempt bonded debt involves an inequitable distribution of the tax burden for many years to come.

When the Government makes Federal Farm Loan Bonds exempt, it provides for a shifting of the farmer's burden onto the taxpayers of the entire country, and we have seen that in the shifting the burden may well have grown four-fold or seven-fold. As a matter of dollars and cents, the affected taxpayers could much better afford to grant the borrowing farmers a direct cash subsidy equal to the saving these borrowers enjoy from tax exemption.

Conclusions

The conclusion would seem to be that the exemption from taxation of Federal bonds, of which the Federal Farm Loan Bonds and Joint Stock Land Bank Bonds are the only current issues, should be definitely abandoned for the reason that such tax exemption

1. Is unscientific and contrary to all enlightened principles of taxation;
2. Is inexpedient and costs more than it saves;
3. Performs no necessary public service:
4. Is unjust, both abstractly and because it injures the innocent purchasers in good faith of taxable Government obligations, by depressing their value, especially Liberty Bonds;
5. Is a dangerous precedent which, followed to its natural conclusion, would render all securities non-taxable and put all the burden on real or tangible property.

GENERAL DISCUSSION

WITH

SPECIAL REFERENCE

TO

FEDERAL LAND BANKS

AND

JOINT STOCK LAND BANKS

EFFECTS OF TAX EXEMPTION OF LAND BANK BONDS

(From an address prepared by E. D. Chassell for the Nebraska Bankers Association, December, 1918)

AN ACCIDENT OF LEGISLATION

The enormous tax exemption granted to very wealthy owners of bonds issued under the Federal Farm Loan act constitutes a privilege to the rich at the expense of the poor unequaled in American history.

The situation is not intentional, but accidental. The income tax and revenue laws of 1916 and 1917 came in contact with the previously enacted Federal Farm Loan act and like the contact of crossed electric wires produced a surprising effect disastrous to the national treasury.

The basic principle of the tax exemption is economically wrong. Stultifying statistics and half truths have been utilized to deceive the public into believing that legislative legerdemain has provided a way to get something for nothing. The average interest rates paid on farm mortgages and the expenses charged have been greatly exaggerated by taking occasional instances and declaring them to be typical. So extravagant are the claims and so liberally have they been advertised that a detailed consideration of the aims, methods and results contemplated by the Federal Farm Loan act are essential to its intelligent consideration.

AIMS AND HISTORY OF RURAL CREDIT SYSTEM

The Rural Credit system was established for the purpose of aiding agriculture by enabling farmers to borrow money on a commercial basis at rates as low as those enjoyed by large industrial institutions.

It was the outgrowth of the depressed condition of agriculture that existed in some parts of this country in the early part of the present century and at irregular intervals for a longer period. The agitation began in 1905 and the subject was first formally brought to the attention of members of congress in 1912. After long investigation and discussion the law was enacted in July, 1916.

The general purpose of the act was, by means of government supervision and patronage, to stabilize rural credits and secure lower rates of interest on capital borrowed to promote or conduct agricultural industries. High commission charges and usurious interest rates were to be eliminated, but at no time in the preliminary proceedings was it proposed to loan money below legitimate market cost to a few selected borrowers at the expense of the national treasury by throwing the burden on the public at large.

The beneficent intent of the measure met universal approval. It is not the purpose of this article to question the good faith of the originators of the movement. The merits of many details of the law are questionable and will doubtless be amended at an early date when reforms will be effected in its administration.

NOT TO BE SUBSIDY OR CHARITY

The promoters of the rural credit system, the commissions appointed to study similar systems in foreign countries and the congressional friends of the movement did not press its passage as a charitable measure or a subsidy for agriculture, much less, as a special favor to a few at the expense of the many.

An official commission composed of congressmen and others appointed by President Wilson investigated European conditions three months in 1913. The following in reference to national aid is from their report:

"It is our opinion that such aid should not be extended in the United States. * * * The idea of Federal aid is always attractive and commands many able, earnest advocates; but self help should be the motto of our new agriculture. If given the opportunity, under liberal enactment of law, the savings of our Nation will gladly invest in this safe field and relieve the Federal Treasury of any necessity to finance the project. It is wise legislation, rather than liberal appropriations or loans, which rural credit most needs at our hands."

Another commission of delegates appointed by the southern commercial congress acting in conjunction with Hon. David Lubin after mature investigation reported:

"It is the opinion of the Commission that our American problem or rural credit should be worked out without government aid. * * * If there is not private capital in sufficient quantities, the only way the Government can get the needed capital is either by taxing all the people in order to get capital for farming, or else by issuing bonds that sometime later must be paid by the people. * * *

"One of the great lessons learned in Europe is that in the long run the farmers succeed best when they help themselves. Whenever they become dependent on the Government, they keep looking to the Government for more aid. It is believed to be a correct general statement that rural credit is on the strongest basis in those countries where it has been developed most completely without Government aid.

"Even granting the great importance of agriculture it is improper for all the people to be taxed in order to assist the prosperity of even a great class like the farming class. Anything in the way of national favors or opportunities for borrowing money on land, would be almost certain to encourage speculation in land. This would lead to still higher prices for land and still greater difficulty in getting the land into the hands of owners who till it.

"It is sometimes urged that the Government should loan money directly to farmers at a very low rate of interest. It is doubtful if it will help the farmers in the long run, if they are given special privileges. In other words, the Government should help bring about a better system of rural credit by legislation, but not by subsidy."

PRESIDENT WILSON'S DECLARATION

On the subject of special privileges President Wilson in his first annual message said:

"The farmers, of course, ask and should be given no special privilege, such as extending to them the credit of the Government itself. What they need and should obtain is legislation which will make their own abundant and substantial credit resources available as a foundation for joint, concerted local action in their own behalf in getting the capital they must use. It is to this we should now address ourselves."

In a favorable report on the bill prior to its passage in 1916 the Joint House and Senate Committee on Rural Credits said:

"The American farmer does not come to congress with a hard luck story. He does not ask the Government to bestow on him the public money that all the people have contributed for taxes. He does not demand that the Government become a banker in order to borrow money on bonds and loan the proceeds to him. * * * He demands legislation that shall put it in the power of those who are interested and those who have the money to invest, to extend to him the credit he requires."

MC ADOO OPPOSED TAPPING THE TILL

In response to a request for Government aid to another industry Mr. McAdoo, Secretary of the Treasury, defined his position as follows:

"Gentlemen, you ask us to stand for a proposition to lend money to private corporations or individuals, upon the security of mortgages

"Never on the face of the earth.

"I tell you, gentlemen, if you enter upon it, you will have to lend the money of the Government upon railroads and every other enterprise. Bills are referred to me asking * * * for raids upon the United States Treasury in the form of actual loans to be made by the Treasury of the United States, on this thing and that thing, farm loans, loans upon houses built by working men, etc. If we go into the money lending business we will have to lend it to everybody; you cannot discriminate under our system of government. Everybody must tap the Treasury till, if you attempt any such resolution as this."

Notwithstanding the advice of all of these investigators and experts President Wilson, Secretary McAdoo and the Joint Committee of the House and Senate the national government furnished all of the capital required to start the twelve Federal Land Banks, $9,000,000 with the exception of about $100,000, subscribed by private investors. It is contemplated that the capital loaned by the government will some time be repaid without interest. The exact amount of stock taken by private investors was but $108,730. In the Omaha bank only $39,330 was subscribed by private parties and $710,670 was furnished free by the government from the national treasury. The banks are corporations created by congress and when the free loan of initial capital is repaid the stock will all be owned by private parties who will participate in the dividends to be paid in cash or credited on their debts. The law especially provides that the government shall receive no interest or dividend whatever on the nearly $9,000,000 capital furnished. Other tax payers of the nation contribute its use for the benefit of the stockholders and borrowers of the Federal Land Banks.

The Federal Farm Loan Board and a large force of other officials paid by the government exercise a supervisory and controlling power over the Federal Land Banks, but the law contemplates that the banks shall become to all intents and purposes private institutions.

BONDS NOT GUARANTEED BY GOVERNMENT

The sale of Federal Land Bank bonds secured by farm mortgages is to furnish funds for conducting the business as contemplated by the act. These bonds are not obligations of the government and the government does not guarantee their payment. Many people supposed they were guaranteed by the Government when the first bonds were sold. They were largely purchased by people who knew little or nothing about the mortgage business. The first newspaper advertisements were so misleading that they were ordered revised. In about half of the states they are not legal investments for trust funds or savings banks. At the time the appropriation of two hundred million dollars was made in January, 1918, for the aid of the Federal Land Banks Mr. Joseph Cannon of Illinois offered an amendment to the bill providing for government guaranty of the payment of the bonds.

Following is the amendment offered by Mr. Cannon:

"Strike out all of Section 1 of the amendment, beginning with line 6, page 1, and insert in lieu thereof the following: 'the payment of all bonds provided, principal and interest heretofore or hereafter issued by any Federal Land Bank, is hereby guaranteed by the Government of the United States.'"

The amendment was voted on three times, first by a viva voce vote, then by a standing vote, then by the members passing between tellers. Each time a majority was found to have voted against the Cannon amendment. Congress thus formally went on record as repudiating and denying any obligation of the government.

CONSTITUTIONALITY OF BONDS DOUBTFUL

By the language of the Federal Farm Loan act congress declared the bonds to be "deemed and held to be instrumentalities of the government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, Municipal and local taxation."

The constitutionality of the tax exemption feature of the law is questioned by many leading lawyers. Former Justice of the Supreme Court, Hon. Charles E. Hughes, after resuming the practice of law in New York was employed to investigate the subject by a syndicate of bankers who were to market a block of the bonds and he wrote an exhaustive opinion favorable to their validity.

Hon. Wm. Marshall Bullitt of Louisville, Kentucky, former Solicitor General of the United States after careful study reached a conclusion in direct contradiction to that of Mr. Hughes. The opinion of Mr. Bullitt was presented in the form of an address at the National Convention of the Farm Mortgage Bankers' Association of America at Kansas City in September, 1918.

The question of the validity of the Federal Land Bank bonds has never been submitted to the supreme court. The Federal Farm Loan Bureau is understood to be opposed to settling the question by a test case.

CHAIRMAN GLASS DISAGREES WITH HUGHES

Mr. Glass said when the Cannon amendment was under consideration on January 4, 1918:

"I would say to the gentleman from Illinois that I do not agree with the opinion of Mr. Justice Hughes that the farm loan system is 'a government instrumentality' or that it was intended to be a government instrumentality. The Government, after considered discussion, took a very limited temporary stake in the system. I do not agree with Justice Hughes' opinion that 'the government is morally bound' for these bonds. But Mr. Justice Hughes is a very distinguished constitutional lawyer, a very discerning public man; and I had in mind his expressed opinion, which was requested by the investment bankers of the country when I stated a while ago that the government was 'morally behind the bonds.'"

Uncertainty as to the validity of the bonds has seriously affected their marketability.

LIBERTY BOND FUNDS USED

Before the close of 1917 the Federal Farm Loan Bureau found itself in financial straits because of failure to market its 4½% tax exempt bonds and an appeal was made to Congress for a special appropriation of $200,000,000 to be expended before July 1, 1919, as a temporary aid.

Senator Weeks of Massachusetts in discussing the bill when before the Senate said:

"How is the purchaser of a liberty bond going to feel when he is importuned to buy a bond, either by the sacrifice of some security which he has or by failing to invest his money in something that will pay him better, if he is told that the money is not to be used to prosecute the war, but it is to be loaned to another one of his fellow citizens simply because that fellow citizen can borrow it at a lower rate of interest than he is now paying on his indebtedness? That is the gist and the essence of this proposition. This is exactly what is going to happen, Senators, if you subscribe to the next Liberty Loan you must feel that some part of your subscription, instead of being used to prosecute the war, is going to be loaned to some of your fellow citizens at a lower rate of interest than he is now paying and for that reason only. Fundamentally, of course, that is bad morally. It is bad from the standpoint of the government at such a time as this, and it is bad finance as well."

VICIOUS LEGISLATION

Mr. Carter Glass, chairman of the committee on Banking and Currency and the house leader for the Administration, in favoring the passage of the special appropriation of $200,000,000 for the relief of the Federal Farm Loan System on January 4, 1918, said:

> "Mr. Chairman, it is needless for me to say to the House that in ordinary circumstances I would oppose—utterly oppose—legislation of this description.* * * I think it usually may be regarded as unwise and in most circumstances as vicious. But these are not ordinary times."
>
> "As I have said, it was never contemplated that the system should be a protege of the Federal Government. Congress resolutely resisted the attempt to make the system a Federal dependent. It is only because these are extraordinary circumstances which confront us that the matter is presented to Congress—not of choice or cheerfully, but of necessity and reluctantly."

THE $200,000,000 APPROPRIATION

The following is the text of the appropriation act which went into effect in January, 1918:

> "That the Federal Farm Loan act, approved July seventeenth, nineteen hundred and sixteen, is hereby amended by adding at the end of section thirty-two the following:
>
> "'The Secretary of the Treasury is further authorized in his discretion, upon the request of the Federal Farm Loan Board, from time to time during the fiscal years ending June thirtieth, nineteen hundred and eighteen, and June thirtieth, nineteen hundred and nineteen, respectively, to purchase at par and accrued interest, with any funds in the Treasury not otherwise appropriated, from any Federal land bank farm loan bonds issued by such bank.
>
> "'Such purchases shall not exceed the sum of $100,000,000 in either of such fiscal years. Any Federal Land Bank may at any time repurchase at par and accrued interest for the purpose of redemption or resale any bonds so purchased from it and held in the Treasury.
>
> "'The bonds of any Federal Land Bank so purchased by the Secretary of the Treasury and held in the Treasury under the provisions of this amendment one year after the termination of the pending war, shall upon thirty days' notice from the Secretary of the Treasury be redeemed or repurchased by such bank at par and accrued interest.
>
> "'The temporary organization of any Federal Land Bank as provided in section four of said Federal Farm Loan act shall be continued so long as any farm loan bonds purchased from it under the provisions of this amendment shall be held by the Treasury, and until the subscriptions to stock in such bank by national farm loan associations shall equal the amount of stock held in such bank by the government of the United States.'"

It will be noted that paragraph four does not make it mandatory on the banks to repurchase any of the bonds at any time unless the secretary of the treasury so requires.

As authorized by this act of January, 1918, the secretary of the treasury during the first six months made the following purchases of Federal Land Bank bonds, the money thus taken from the national treasury being loaned by the Federal Land Banks:

January	$ 3,500,000
February	10,500,000
March	16,550,000
April	15,050,000
May	14,810,000
June	3,750,000
Total	$64,160,000

During the months of July and August, 1918, bonds of the 5% issue were purchased by the treasury to the amount of $3,500,000 and accrued interest, but these were subsequently withdrawn for private sale.

On the 6th of November, 1918, the treasury held $55,970,000 of the 4½% bonds, indicating that amount of money from national treasury loaned to the Federal Land Banks.

It was officially announced in October, 1918, that the next issue will be of 4½% bonds, all of which will be absorbed by the treasury, thus again using public money for private loans, war funds to continue the Federal Land Banks in business.

The general public has never been fully informed that over fifty-five million dollars of the proceeds of Liberty Bonds and War Savings Stamps has been thus loaned to farmers instead of being expended for winning the war. The further fact that nearly one hundred million dollars more may be taken from the public treasury for this purpose before next July has not been generally communicated to purchasers of future issues of Liberty Bonds.

FUTURE APPROPRIATIONS DOUBTFUL

It is not at all probable that another appropriation will ever be voted by Congress to enable the Federal Farm Loan Board to continue its present practices. Without special aid after $100,000,000 more bonds are purchased by the treasury it will be necessary for the Federal Land Banks to resume the sale of bonds to the public in order to continue the making of loans. Unless the law is amended this will cause enormous losses through tax exemptions to bond owners receiving large incomes.

The importance of judicious legislation concerning the farm loan business is apparent on a survey of the field to be covered.

FARMS AND MORTGAGES IN THE UNITED STATES

The Federal census of 1910 shows that there were in the United States

Farms operated by owners	3,948,722
Farms operated by part-owners or managers	58,104
Farms operated by tenants	2,354,676
Total number of farms	6,361,502

Statistics were obtained as to mortgages on farms operated by owners. They were:

Farms mortgaged	1,327,439
Farms not mortgaged	2,621,283
Total	3,948,722

It will be noted that about one-third of the farms operated by owners were mortgaged and two-thirds were not mortgaged.

No statistics were obtained by the U. S. census bureau as to mortgages on farms operated by tenants. They would be of no value to this discussion as loans cannot be legally made on farms operated by tenants under the Federal Farm Loan Act. Therefore, only about one farm in five could obtain loans under this act—1,327,439 out of 6,361,502.

The best authorities of the present time estimate:

Farm mortgages in the United States	$4,000,000,000
Annual maturities on basis of five-year term	800,000,000
Annual interest at average 6% rate	240,000,000

LIFE INSURANCE COMPANY MORTGAGES

According to the report of Mr. George T. Wight, Secretary and Manager of the Association of Life Insurance Presidents transmitted in August, 1918, 165 American companies on December 31, 1916, held $844,831,349 of farm mortgages in the United States. During the first nine months of the year 1917, 159 of these companies made new loans to the amount of $199,121,377. No statistics are available as to the loans paid off since December 31, 1916, but a fair estimate would place the present farm loans of the 165 life insurance companies at more than $1,000,000,000. The average interest rates received were reported on 75% of the farm loans outstanding at the end of 1916 and on over 50% of the new loans made in 1917. This data showed a slight increase, throughout the country between 1914 and 1916 from an average of 5.55% in 1914 to 5.63% in 1916.

The average throughout the country for the 200 millions loaned in the first nine months of 1917 showed a slight decrease, dropping to 5.52%. Later statistics are not available but in sympathy with the interest returns on other securities there has been a slight increase, possibly a quarter of one per cent. The nineteen states in which 95% of the life insurance company loans are made produce nearly 75% of the food crops and 80% of the meats of the United States.

EXTENT OF FEDERAL LAND BANK LOANS

During the year and a half that the Federal Farm Loan Banks have been in existence, for the period ending October 1, 1918, the total amount of loans made by them was $131,903,684. The amounts loaned each month have varied with the season and have been influenced by general conditions. In December, 1917, the total amount of loans closed was $9,309,659. In February, 1918, the loans closed were $13,279,911. In March, 1918, the total loans closed were $13,471,474. In September, 1918, the amount of loans closed fell to $7,056,700. The amounts for later months will be slightly larger.

On the basis of this record it is safe to assume that the annual loans made and bonds issued by the Federal Land Banks will average about $100,000,000 per year. The total amount loaned during the first eighteen months of the existence of the banks $131,903,684 was made up of 58,202 loans or an average of 3,233 loans per month. This would be at the average rate of 38,796 loans per year.

Of the 6,361,502 farms in the United States with 38,796 loans closed each year, one loan would be made for each 161 farms. For every farm that is granted a loan, 160 farms will be left each year without this favor at the present rate of loaning. It is therefore important that the comparative benefits and expenses be carefully considered. The possible or promised benefits to one farmer who receives a loan must be balanced up against the effect on 160 farms operated by owners, tenants or others who are free from debt or who do not care to borrow money on mortgages running thirty-five years. The unimpeachable evidence of the United States census proves that the Federal Land Banks do not help all the farmers, only a few of them.

On the basis of 23,500,000 families in the United States engaged in all occupations with 38,796 loans per year one loan would be made annually for each group of 605 families of all occupations. The possible benefits to one family out of a group of 605 families must be considered. It would be contrary to the spirit of American institutions to require 604 families to pay the bill for benefits granted to one family.

Up to Nov. 6th, 1918, Federal Land Bank bonds had been issued to the amount of $140,500,000, part of which were sold to the public and part of which were bought by the Secretary of the Treasury. In May and June, 1918, $55,000,000 of 5% tax exempt Federal Land Bank bonds were issued, following

an extensive newspaper advertising campaign. In addition to the $140,500,000 tax exempt Federal Land Bank bonds, $6,875,000 of tax exempt Joint Stock Land Bank bonds were issued prior to November 6th, 1918.

LOSSES BY TAX EXEMPTION

Loss through exemption from local, municipal and state taxation is of considerable importance to communities in which the bonds are owned.

Losses through exemption from normal income tax and from income surtax directly effect every taxpayer and consumer of the entire nation.

NON-BORROWERS ARE LOSERS

All citizens of the United States are losers by reason of the additional expense to the United States Government because of the favors given to the small percentage of borrowers. The losers include those who pay taxes on real estate, those who pay taxes on personal property and all consumers of every article of food, clothing or other merchandise which may be enhanced in price on account of taxes imposed to reimburse the national treasury for expenses or losses incurred in granting special privileges to the owner of one farm out of each 161 farms.

The expense incurred from payment of salaries and the free use of the U. S. mail by the Federal Farm Loan Bureau and other costs of the Federal Farm Loan Bureau are a direct expense and loss to taxpayers and are added to the probable loss to the public treasury through the exemption of Federal Land Bank bonds from taxation.

The chart on pages 14 and 15 has been prepared in accordance with the Federal Income Tax Law of October 3rd, 1917.

It shows the amount of income tax payable on incomes ranging from $4,000 to $2,000,000 with rates for larger incomes. The table begins with the $4,000 income of a married individual. With an unmarried person the exemption limit would be reached at $2,000.

Headings of the several columns clearly explain their use.

The calculations have been made and the columns arranged to definitely show the losses sustained by the national treasury through the exemption from normal tax and surtax of Federal Land Bank five per cent bonds when held by individuals receiving incomes subject to the several rates of taxation.

By referring to Column G it will be seen that the national treasury would lose $2.00 per thousand per year if the bonds were owned by a person receiving an income in excess of $4,000 per year and not in excess of $5,000 while the loss would increase to $8.00 per year if the bonds were in the hands of a person receiving an income in excess of $20,000 per year and not exceeding $40,000 and it would increase to $33.00 per year if the same bond were owned by a person receiving an income in excess of $1,500,000 per year and not exceeding $2,000,000.

Column H shows that the yield of a 5% Federal Land Bank bond would be the same with all incomes.

Column I shows the net yield of a 4¼% Liberty Bond with all incomes after the exemption limit of holdings has been passed. Liberty Bonds are not subject to the 4% normal tax. It will be observed that the 4¼% Liberty bond yields only 1.615 per cent after deducting income surtax when owned by a person receiving an income in excess of $1,500,000 while a Federal Land Bank bond being exempt from both normal tax and surtax yields 5 per cent—over three times as much—a very heavy discrimination against the Liberty bond—showing why the Land bank bond has gone up to 104¼ while the Liberty bond sells below 97.

Column M shows the rate of interest required on a taxable bond to equal the 5% afforded by a tax exempt bond at the various rates. The taxable bond would with a $4,000 income be required to bear 5% interest, with a $100,000 income 6.756%, with a $2,000,000 income 14.705%.

Starting in Column A with a $2,000,000 income and following the line across the chart it will be noted that $500,000 of the $2,000,000 would be subject to a surtax of 62% or $310,000 and to a normal income tax of $20,000 a total income tax of $330,000. On this basis the owner would save $33.00 tax on $50.00 derive from a 5% $1,000 tax exempt Federal Land Bank Bond.

The next column shows that a 4¼% Liberty Bond if held in excess of the maximum tax exemption limit would yield only 1.615%.

CHART SHOWING INCOME TAXES, BOND YIELDS AND TREASURY

NET INCOME	Amount subject to surtax at rate shown on same line in Column C.	Rate of surtax for amount on same line Column B.	Amount of surtax on amount on same line Column B.	Normal tax of 4% on amount on same line in Column B.	Aggregate of surtax and normal tax for amount on same line Column B.
A	B	C	D	E	F
$4,000	....	....	....	....	....
5,000	$1,000	....	....	$40	$40
7,500	2,500	1%	$25	100	125
10,000	2,500	2%	50	100	150
12,500	2,500	3%	75	100	175
15,000	2,500	4%	100	100	200
20,000	5,000	5%	250	200	450
40,000	20,000	8%	1,600	800	2,400
60,000	20,000	12%	2,400	800	3,200
80,000	20,000	17%	3,400	800	4,200
100,000	20,000	22%	4,400	800	5,200
150,000	50,000	27%	13,500	2,000	15.500
200,000	50,000	31%	15,500	2,000	17,500
250,000	50,000	37%	18,500	2,000	20,500
300,000	50,000	42%	21,000	2,000	23,000
500,000	200,000	46%	92,000	8,000	100,000
750,000	250,000	50%	125,000	10,000	135,000
1,000,000	250,000	55%	137,500	10,000	147,500
1,500,000	500,000	61%	305,000	20,000	325,000
2,000,000	500,000	62%	310,000	20,000	330,000
Over 2,000,000	any amt.	63%	....	....	....

The next three columns show the net yield of 5%, 6% and 8% taxable securities.

The last column shows that a taxable security would be required to bear 14.705% interest to yield 5% net income.

Examination of columns I, J, K, L and M shows that the changes are gradual until the income reaches $40,000 and then the increase is rapid. A six per cent taxable security would yield less than five per cent when the owner's income was

in excess of $60,000 and not in excess of $80,000. An eight per cent taxable security would pass the dead line and yield only 4.72 per cent when the owner's income reached $200,000 and did not exceed $250,000.

As the heaviest taxes are levied on the larger incomes the tax exemption of bonds is of greater benefit to individuals receiving the larger incomes.

INCOME TAX EXEMPTION NO BENEFIT TO POOR MAN

A Federal Land Bank bond of the issue of May, 1918, yields an income of 5% or $50.00 net on a $1,000 bond.

LOSSES FROM EXEMPTIONS UNDER LAW OF OCTOBER 3, 1917

Annual Loss to National Treasury on $50.00 income on each $1000 5% Federal Land Bank bond at rate on same line in Columns D and E.	Net yield to investor of tax exempt Federal land bank 5% bonds.	Net yield to investor of 4¼% Liberty bonds on amounts in excess of maximum exemption from surtax.	Net yield to investor of taxable 5% bonds subject to surtax and normal tax.	Net yield to investor of taxable 6% bonds subject to surtax and normal tax.	Net yield to investor of taxable 8% bonds subject to surtax and normal tax.	Rate required on taxable securities to yield 5% net as part of income shown same line Column B.
G	H	I	J	K	L	M
....	5%	4.25	5.00	6.00	8.00	5.00
$2.00	5%	4.25	4.80	5.76	7.68	5.208
2.50	5%	4.207	4.75	5.70	7.60	5.263
3.00	5%	4.165	4.70	5.64	7.52	5.319
3.50	5%	4.122	4.65	5.58	7.44	5.376
4.00	5%	4.080	4.60	5.52	7.36	5.434
4.50	5%	4.037	4.55	5.46	7.28	5.494
6.00	5%	3.910	4.40	5.28	7.04	5.681
8.00	5%	3.740	4.20	5.04	6.72	5.952
10.50	5%	3.527	3.95	4.74	6.32	6.329
13.00	5%	3.315	3.70	4.44	5.92	6.756
15.50	5%	3.102	3.45	4.14	5.52	7.246
17.50	5%	2.932	3.25	3.90	5.20	7.692
20.50	5%	2.677	2.95	3.54	4.72	8.474
23.00	5%	2.465	2.70	3.24	4.32	9.259
25.00	5%	2.295	2.50	3.00	4.00	10.000
27.00	5%	2.125	2.30	2.76	3.68	10.869
29.50	5%	1.912	2.05	2.46	3.28	12.195
32.50	5%	1.657	1.75	2.10	2.80	14.285
33.00	5%	1.615	1.70	2.04	2.72	14.705
33.50	5%	1.572	1.65	1.98	2.64	15.151

The exemption from income tax is of no value to the holder of the bond if he is an unmarried man with an income of $2,000 per year or less. It is of no value to the married man whose income does not exceed $4,000. To the person with an annual income of $5,000 the exemption feature on a $1,000 bond is worth $2.00. If his income is $7,500 the exemption feature is worth $2.50. If his income exceeds $1,500,000 the exemption is worth $33.00 per year on income tax of a $1,000 5% bond.

The value of this exemption feature is graduated by an increase in surtax until the annual income exceeds $2,000,000. On the excess of $2,000,000 per

year the surtax is 63% and the normal tax 4% making the tax exemption feature worth 67% to the income in excess of $2,000,000 as compared with nothing to the income of a single man below $2,000 or of a married man below $4,000.

When Federal Land Bank bonds are offered for sale the highest bidders will naturally be the persons to whom they will be of the greatest value. A careful inquiry shows that the larger portion of the bonds sold in May and June, 1918, ultimately reached wealthy investors. The few which were first purchased by persons of moderate or small incomes were afterwards largely sold at a profit to investors in whose hands they would be of greater value. This is apparent from the fact that the market price rose from $1.01 in May to $1.07 in August. In September and October New York Curb quotations were between $1.04 and $1.05. On November 30th, 1918, they were quoted at $1.04¼.

A study of the table entitled "Income Taxes, Bond Yields and Treasury Losses" on pages 14 and 15 will clearly show why the tax exempt bonds are bought by wealthy investors and not by those having small incomes.

ANNUAL INCOME OF 23,500,000 FAMILIES

Under the title of "Twenty Four Billions" the Bankers Trust Company of New York recently issued statistical tables on incomes received in the United States. The annual income of the 23,500,000 families of this country is estimated at $60,000,000,000. It is further estimated that two-thirds of this amount or $40,000,000,000 is distributed among families receiving incomes of less than $2,000 per year. There are 21,375,000 families, or over 90% of the American people, whose incomes are $2,000.00 a year or less. It is also estimated that $5,000,000,000 goes to families receiving incomes ranging from $2,000 to $5,000 per year. A further estimate is made that only about $1,000,000,000 of the $60,000,000,000 goes to families enjoying incomes of $250,000 per year or larger. Only 6,633 families have incomes of $100,000.00 per year or more.

This proves that the tax exempt land bank bonds can be especially attractive only to a very few persons of large incomes while the vast majority of the American people having incomes of $2,000 or under can receive no benefit from the tax exemption and will naturally invest their savings in more attractive 6% or 7% taxable securities.

Following is part of the table copied from Page 256, Report of the Commissioner of Internal Revenue for the fiscal year ending June 30, 1917, which shows that there is a sufficient number of very wealthy people to buy all possible issues of Federal Land Bank tax exempt bonds:

TABLE SHOWING THE TOTAL NUMBER OF RETURNS BY CLASS DISTRIBUTION

Income Class		No. of Returns
$ 100,000.00	to $ 150,000.00	2,900
150,000.00	200,000.00	1,284
200,000.00	250,000.00	726
250,000.00	300,000.00	427
300,000.00	400,000.00	469
400,000.00	500,000.00	245
500,000.00	1,000,000.00	376
1,000,000.00	1,500,000.00	97
1,500,000.00	2,000,000.00	42
2,000,000.00	3,000,000.00	34
3,000,000.00	4,000,000.00	14
4,000,000.00	5,000,000.00	9
5,000,000.00	and over	10

By taking the totals of the returns it will be noted that there are 6,633 who have incomes in excess of $100,000. There are 582 who have incomes in excess of $500,000. There are 206 who have incomes in excess of $1,000,000. There are 109 who have incomes in excess of $1,500,000. The Internal Revenue Report for the year ending June 30, 1918, will without doubt show an increased number of large incomes.

VOLUME OF LOSSES BY EXEMPTION

The interest income on $100,000,000 of Federal Land Bank 5% bonds is $5,000,000 per annum. These bonds held by persons receiving incomes of $1,500,000 to $2,000,000 per year would be granted an income tax exemption privilege of 66%, being 62% surtax and 4% normal tax. On each bond of $1,000 bearing an income of $50.00 the exemption would be $33.00 annually.

With $100,000,000 worth of these bonds in the hands of these very wealthy persons the net loss to the national treasury in one year will be $3,300,000. This is in addition to the benefit derived by bond holders and losses sustained by the public through exemption from local, municipal, state and school taxes.

The advertisements of the Federal Land Bank bonds in May, 1918, did not overdraw the importance of this exemption when they made the following statement:

"*Such exemption from taxation in a 5% bond constitutes an advantage hitherto unknown in American investments.*"

With 109 persons receiving incomes in excess of $1,500,000 each, the demand for bonds sustaining this extravagant exemption feature will be sufficient to absorb all bonds issued in the future by the Federal Land Banks. Their annual *income* will be sufficient to enable them to purchase the entire future output of Federal Land Bank bonds without converting any of their capital. It is probable, of course, that a portion of these bonds will be acquired by persons having incomes in excess of $2,000,000. In that case the loss to the national treasury would be 1% greater.

It is possible that a few bonds might be acquired by persons of smaller incomes. In that case they would naturally drift to the coffers of the richer persons. An investor having an income of $1,500,000 could exchange a 10% taxable security for a 5% or a 4½% Federal Land Bank bond and make a handsome annual profit. The man with an income of $2,000 could exchange a 5% tax exempt Federal Farm Loan bond for a 6% or 7% taxable security and make a substantial annual profit. As naturally as water runs down hill, tax exempt bonds will flow to the wealthy investors.

WORTH 14% TO VERY WEALTHY

It would be impossible for these very wealthy capitalists to invest their money in any safe securities that would pay them anywhere near as heavy net dividends. A taxable security paying 14% interest would yield to these very wealthy investors a smaller income than the 5% Federal Land Bank bonds. A taxable bond paying 14% would net only 4.76% after deducting 66% income tax. A taxable security would be required to bear interest at the rate of 14.7% in order to net 5% to a person receiving an income in excess of $1,500,000.

Of the $4,000,000,000 invested in farm mortgages in the United States, a part are short-time loans, some of which for various reasons could not be funded by the Federal Land Banks. It is possible within a short time that $2,000,000,000 of these mortgages may be placed by the Federal Land Banks.

LOSS $76,000,000 ANNUALLY

With persons of heavy incomes holding $2,000,000,000 of Federal Land Bank 5% bonds the annual loss to the National Treasury would be $66,000,000.

The loss through exemption from local, municipal, state and school taxes cannot be accurately given but an approximate estimate of one-half of one per cent per annum is reasonably correct. This would entail a regular continuous loss of $10,000,000 more per year, making a total annual loss of $76,000,000.

In making these estimates the limit of loss has been given. In estimating expense or loss or public expenditures it is never good business judgment to make calculations below the limit. There might be temporary or accidental causes to reduce these estimates for a short time but in the long run the intelligent American millionaire will not let any good bargains escape. The estimates given are practical estimates, because individuals of sufficient financial ability to obtain very large incomes always have sufficient ability to invest in the most profitable securities publicly advertised.

The $76,000,000 per year which the national and local governments may lose annually when the Federal Land Banks are running to capacity may not appear to be a very large sum when compared with the billions which the war has cost.

The amount has little definite significance when taken by itself but by comparison with state taxes of several states a clearer comprehension of its immensity is obtained.

TAXES OF TEN REPRESENTATIVE STATES

This possible future annual loss is greater than all of the state taxes of ten states levied for the purpose of paying the salaries of state officers, maintenance of state universities, normal schools, agricultural colleges, hospitals for the insane, schools for the blind, the deaf and the feeble-minded, state penitentiaries and reformatories, interest on public debts and for all other state purposes.

The statistical abstract of the United States printed in 1917 gives the state taxes of the following named ten states in the year 1912:

Maine	$ 8,987,106
New Hampshire	6,978,316
South Carolina	6,899,060
Alabama	9,971,300
Mississippi	9,911,344
New Mexico	3,426,306
Arizona	4,357,963
North Dakota	11,875,249
South Dakota	10,719,934
Wyoming	2,610,357
Total	$75,736,935

The total state taxes of these ten states in the year given were less than $76,000,000. The tax exemption to be made annually in a few years to American millionaire owners of Federal Land Bank bonds will be greater than the taxes of these ten states. In every one of the states named there are thousands of taxpaying citizens more in need of donations than the wealthy owners of Federal Land Bank bonds but a proposition to have Congress pay these taxes out of the national treasury at the expense of the taxpayers of the United States would

be unanimously condemned. This amount should not be taken from the great mass of the American people and donated to a very small proportion who are extremely wealthy. The evil of tax exemption is growing gradually instead of coming on in a lump sum. The burden will be just as heavy in the end if the law is not amended. The principle is wrong. This is contrary to the intent of the law. This is helping the rich at the expense of the poor.

TAX BURDEN SHIFTED TO OTHER TAXPAYERS

It is conceded by all economists that exemption from taxation in no way reduces government expenses. The exemption merely shifts the burden of taxation from the owners of exempt property to the owners of taxable property and to the consumers. Exemption from municipal, school, city and state taxes will increase the taxes paid by local property owners.

CONGRESSMAN MORGAN'S OPINION

In his book, ''Land Credits,'' Hon. Dick T. Morgan of Oklahoma in commenting upon rural credit bills before Congress said:

> "They propose to exempt private profit sharing land banks—and profits, resources, surpluses and incomes from Federal, state and local taxation, which must add additional tax burdens to other private property, rob the state and local governments of millions of dollars of revenue, when exemption from taxation is a privilege not extended to any of the private, profit-sharing land banks of European countries."
>
> (Page 5, "Land Credits," Crowell Co. 1915.)

On page 218 of the same book Congressman Morgan says:

> "Apparently there is general approval of the idea to exempt the mortgages and bonds from taxation. But the Federal Government thereby takes vast revenue from the state and local governments. Here again appears an inconsistency on the part of those who so vehemently oppose government aid by use of the Government's fund or credit, but do not hesitate to force the States and local governments to relinquish revenue and credit to make the land credit institutions successful. It must also be borne in mind that TO BELIEVE ONE CLASS OF PROPERTY FROM TAXATION ALWAYS PLACES AN ADDITIONAL BURDEN UPON OTHER PROPERTY. So in the end, SOMEBODY MUST PAY THE BILL."

INCREASED FREIGHT AND PASSENGER RATES

The amount of money which the National Treasury loses through tax exemptions must be made up by additional taxes imposed either directly or indirectly on the public. These in every case increase the cost of living, in addition to the burden imposed upon the parties who pay taxes.

At the present time all farmers are obliged to pay a 3% tax on the cost of shipping cattle, hogs, grain and other freight on railroads. This in turn increases the cost of food to the consumer. Every farmer is thus obliged to pay a tax on every dollar's worth of produce which he sells in order to help make up the deficit caused by the tax exemption granted to the owners of Federal Land Bank bonds. Every traveler on the railroad is obliged to pay an 8% tax to help make up the treasury deficit caused by the special favor which is granted to the very wealthy owners of the Federal Land Bank bonds.

A similar tribute is required in varying degrees from every man who smokes a cigar, from every person who buys a piece of jewelry, from every individual who pays for a meal at a hotel, who uses a telephone, sends a telegram, attends a theatre or who purchases food or clothing for family use.

The farmer who borrows money at a bank and gives his note is obliged to pay 20 cents for a revenue stamp to put on a thousand-dollar note because the

national treasury at Washington needs the money. Twenty dollars in revenue stamps are required for a deed to a $20,000 farm to help make up the deficit caused by tax exemption. An extra cent is charged for postage on every letter mailed for the same reason. The merchant who signs an acceptance for an invoice of merchandise is obliged to pay a stamp duty. A part of all these taxes are required to help make up the shortage in the treasury caused by exemptions allowed to very wealthy people who buy tax exempt Federal Land Bank bonds and thus evade the taxes they ought to pay.

Every farmer who buys a wagon, a harvester or a plow is compelled to pay a higher price for it because of the national taxes imposed upon the manufacturers in order to fill the treasury deficit caused by the exemption of Federal Land Bank bonds. These are war taxes but the tax exemption increases war taxes to all tax payers.

MORE CREDIT BANKS WANTED

The mistaken idea that tax exemption of farm loan bonds legitimately produces cheaper money has already started active agitation for two more kinds of government loan banks whose success shall be based on tax exempt securities.

Residents of cities are already clamoring for the organization of banks to give them the same special privileges as those granted by the Federal Land Banks. Within the last few months the real estate board of New Orleans passed resolutions urging the enactment of such a law.

A bill now before congress provides for the organization of personal credit banks. Its object is to provide cheap loans for persons who have neither country nor city property real or personal to offer as security.

TAX EXEMPT ARISTOCRACY

There appears to be no good reason why preference should be shown to any one class of people over another. If carried to its ultimate conclusion this legislation will result in tax exemption of all money loaned and of the income received therefrom. When that condition of affairs is reached the persons who own property and do or do not owe debts will be compelled to pay all of the direct taxes and those who earn salaries or receive other taxable incomes will pay all of the income taxes while the persons who hold securities and receive the interest on the debts will constitute a tax exempt aristocracy contributing nothing to Federal, state, municipal, local or school support by either property or income taxation.

RATES OF INTEREST NOT GREATLY REDUCED

The advocates of this system contend that the Federal Land Banks are able to loan money at ½% lower than private investors. Some ultra-enthusiastic partisans of the Federal Land Banks claim that a saving of 1% is made for the borrower. The rate of interest charged by the Federal Land Banks at the present time is 5½% which is paid by the farmer. There are numerous other incidental overhead expenses for salaries of the Farm Loan Bureau and employes at Washington and other purposes which are paid by the Federal Government. Joint Stock Land Banks loaning under the same law and enjoying full tax exemption of securities loan at a rate of 6%. Private investors in the principal agricultural states loan at 5½% to 6% including commissions without any exemption of securities from taxation. Life Insurance companies are carrying one-quarter of the farm mortgages of the country at less than 5¾%.

In the semi-arid states, in undeveloped pioneer territory and in localities where the conditions are hazardous, higher rates are charged by conservative private investors. The proportion of mortgages on which rates of eight per cent or higher are charged is small. Some of the partisan supporters of the Federal Land Bank system have compared a few loans bearing ten per cent in hazardous localities with millions of dollars worth of loans in safe loaning territory at five and one-half percent to six percent and have concluded that the average farm loan rate is therefore eight percent. This is clearly an error. The volume of loans at each rate should be considered. In Iowa where the average rate is about 5¾% the Federal Land Banks have closed loans to the amount of $5,412,350. In Wyoming where plenty of loans are made at 8%, 9% and 10% the Federal Land Banks have loaned $427,400. Giving the benefit of a liberal estimate and crediting their Wyoming loans all to ten percent territory, the actual average is a very small fraction over six percent when the volume of loans in both Iowa and Wyoming is considered.

A negro farmer might borrow fifty dollars from an Alabama bank for a month until he could market his cotton and be charged one dollar for the accommodation. That would figure out as 24% interest. A dozen other farmers might borrow $500 each for six months at six percent. It would not be correct to say that the average interest rate charged by the Alabama bank was fifteen per cent.

SEEM CHEAPER BUT COST MORE

The superficial observer might be deceived into the belief that the Federal Land Bank loans made at a lower rate are cheaper. A careful analysis shows the contrary to be the case. They merely seem cheaper.

An Iowa farmer borrowing $1,000 from a private investor at 6% pays $60.00 per year interest. The investor holding the mortgage pays his full share of local, state, school, municipal and Federal and income taxes without any rebate or exemption whatever. The total gross cost of the loan to the American people is $60.00, paid by the farmer who obtained the loan and received its benefits.

Another Iowa farmer borrowing $1,000 from a Federal Land Book pays five and one-half percent interest or $55.00 per year. The Federal Land Bank may obtain the $1,000 to loan the Iowa farmer by selling $1,000 in bonds to a person having an income in excess of $1,500,000 per year. The bond is exempt from all taxes. When the millionaire pays his income tax he is given credit to the extent of $33.00 on the $50.00 interest received on the thousand dollar bond because it is exempt from income tax. Instead of paying $33.00 into the national treasury he retains it in his pocket and the $33.00 is collected from the rest of the American tax payers to fill the deficit caused by the exemption. The loan has now cost the farmer $55.00 and it has cost the American people $33.00, a total cost of $88.00. When the time comes for payment of local taxes, the very wealthy owner of the Federal Land Bank bond declines again to pay taxes on the Federal Land Bank bond. A fair and moderate estimate of the tax which he evades for local, state, school and municipal purposes would be five dollars. This five dollar deficit in the local treasury must be paid by his neighbors in order to keep up local and state expenses. The direct cost of the Federal Land Bank loan to the country at large is $55.00 paid by the farmer, $33.00 exemption granted to bond holder on income tax, $5.00 exemption granted to bond holder on local, state, municipal and school tax, a total cost of $93.00 equalling 9.3%. The borrower pays $55.00 and the American people at large pay $38.00.

The farmer who borrowed at the rate of $55.00 per year thought he was saving $5.00 each year. He did not realize that 160 other farmers would be compelled to pay a share of $38.00 a year in order that he might save five dollars. He did not realize that 604 other families of factory workmen, clerks, railway men, merchants and farmers would be obliged to contribute a share of $38.00 in order that his family might save five dollars. This cost to the American people of $38.00 compared with $5.00 saved by him makes a public loss of $7.60 for every dollar benefit which the borrower receives. The taxpayers would save $33.00 profit annually on every thousand dollars loaned if congress were to appropriate $5.00 a year as a bonus or gift to be presented to each borrower for every thousand dollars borrowed through the Federal Land Banks. The principle is wrong. The people would prefer donating $5.00 to a farmer needing charity rather than making a present of $38.00 to a rich investor on every $1,000 invested by him.

DEPRESS PRICE OF LIBERTY BONDS

The special immunity extended to the Federal Farm Loan bonds issued by the Federal Land Banks and the Joint Stock Land Banks has been one of the causes that have depressed the credit of the United States and depreciated the price of Liberty Bonds in the market. The first issue of Liberty Bonds drawing 3½% interest are the only bonds issued since the war began that are exempt from all taxation the same as Federal Land Bank bonds. The 3½% Liberty Bonds in November, 1918, were selling on the market at par or lower, a decline of two percent from midsummer quotations. Dec. 7th they sold in New York at 97.20.

Subsequent issues of Liberty bonds bearing 4¼% interest are subject to certain surtaxes. The U. S. Liberty 4th 4¼'s closed November 30th at 96.88. On December 7th they sold in New York at 95.82. They are the direct obligations of the government, backed by the resources and honor of over 105,000,000 people.

The great loss that would accrue to the country from having so vast an amount of Liberty Bonds tax exempt was realized after the first issue of 3½% Liberty bonds and therefore the second and third issues of 4% and 4¼% Liberty Bonds were made subject to surtaxes, but no law was passed imposing a surtax on later issues of Federal Land Bank bonds. This discrimination in favor of land band bonds and against the nation's own obligations, the Liberty bonds caused considerable discussion in congress and out of congress. It resulted in removing the surtax from Liberty bonds to a limited extent at the time the fourth issue was authorized, but this is of trifling importance to persons receiving large incomes as they are only granted exemption of surtax on Liberty Bonds yielding less than $5,000 annually. It would have been better for taxpayers by many hundred million dollars if the surtax had been left on Liberty bonds and the exemption removed from Federal Land Bank bonds.

LAND BANK BONDS ABOVE PAR LIBERTY BONDS BELOW

The Federal Land Bank bonds which are expected to be a source of profit to the banks that issue them and which are a source of enormous profit to the very wealthy bond holders who own them were quoted November 30th, 1918, as sold on the Broad Street Curb at 104¼. These obligations of privately owned corporations sell four to seven points above the Liberty bonds. Very few Federal Farm Loan bonds are offered on the market now because they have been nearly all bought up by very wealthy people who will hold them.

The following quotation from the market reports of November 30th, 1918, show the depreciation of Government bonds at that time and the higher market value of Federal Land Bank bonds. These are the closing quotations for the day:

Liberty bonds, second	4 %	at	94.70
Liberty bonds, third	4¼%	at	96.64
Liberty bond, fourth	4¼%	at	96.88
Federal Land Bank bonds	5 %	at	104¼

The depreciation of all of the second, third and fourth issue of Liberty bonds has resulted in a loss of many hundred million dollars. The optimistic theorists who once considered the government credit unlimited now understand that it has its limits. For that reason its securities drop below par in competition with investments yielding greater net returns.

The last issue of 4¼% Liberty bonds was $6,000,000,000. The price of these bonds dropped to 95.80 on December 7th, causing a loss of $240,000,000 to the patriotic citizens who purchased them to help win the war. That is a loss of $40.00 to the widow who purchased a bond of $1,000 and a loss of four dollars to the boot black who showed his love for the flag by buying a $100 bond on the installment plan.

PRICE DEPRESSION RECOGNIZED AT WASHINGTON

This bad effect of the Federal Land Bank bonds on the government credit and on the market price of its obligations is recognized by the department at Washington. It was announced officially in October that the next issue of Federal Land Bank bonds would be purchased by the Secretary of the Treasury. This will again be the direct use of proceeds of Liberty bonds and War Savings Stamps to loan to Federal Land Bank borrowers. When any system is inherently wrong from an economic standpoint it can not be made right by sharp manipulations.

LARGER LOANS IN IOWA

In the state of Iowa the regular standard commercial rate on farm mortgages during the last year and a half and for twenty-five years previous has been between five and six percent. Under the influence of the liberal valuation allowed and the alluring promises that "the mortgages will never have to be paid" the Federal Land Bank loaned $5,412,350 in Iowa prior to October 1st, 1918, on 804 farms on mortgages averaging $6,731.

A farmer may borrow money to the amount of half the value of his land and twenty percent of the value of his buildings. If these loans were made according to law the average borrower owned in his own name more than $14,000 worth of real estate including buildings on which to give security in addition to his personal property.

Men who declined investments bearing six percent interest and instead purchased Liberty bonds yielding four and a quarter percent interest to help win the war did not understand that part of that money was to be loaned at 5½% to their rich farmer neighbors each owning more than $14,000 worth of property.

NO INCREASE IN FOOD PRODUCTION IN IOWA

Iowa is the most prosperous agricultural state of the nation and her food production is among the greatest. Special exemptions are claimed for Federal Land Bank bonds on the plea that the money is loaned to increase the produc-

tion of food. Any intelligent person familiar with conditions in Iowa knows that more than $5,000,000 loaned there failed to increase food production. It was well known when the loans were negotiated that there would be no increase in food production in Iowa that could be honestly credited to the Federal Land Bank loans.

Nearly all of these loans were to refund existing debts. The average Iowa farmer now owes $6,731 to a Federal Land Bank due in 35 years with interest at 5½% instead of owing an insurance company $5,000 due in two or three or five years with interest at 5½% to 5¾%. The increased loan gave him enough extra cash to pay for a good automobile and the novelty of putting off the final payment so his grandson could pay it appealed to him. His corn yields no more to the acre and his pigs grow no faster since he changed the name of his mortgage creditor.

The losses sustained by the national treasury through the loaning of over $5,000,000 of tax exempt money in Iowa would aggregate $165,000 every year when estimated at $33 per thousand. These losses are in no way offset by any material increase in food production.

In the congressional debate January 4th, 1918, on the $200,000,000 special appropriation for the Federal Land Banks, Chairman Glass in supporting the bill as the representative of the Federal Farm Loan Bureau stated that ninety percent of the loans made by the Federal Land Banks were to refund existing loans thus admitting that ninety percent of the money loaned could not possibly increase food production. All of the loans thus far made by the Federal Land Banks affect less than one percent of the farms of the United States.

GENERAL FAILURE TO INCREASE FOOD PRODUCTION

A careful investigation of the effects of Federal Land Bank loans throughout the United States proves conclusively that there was not enough of an increase in food production to warrant the tax exemption of the bonds. In states where large loans are made, increased food production was not expected. In many hazardous localities where the Federal Land Banks gambled with nature, the crops were failures and actual Government donations have, in many instances been required. A broad critical view of the entire country shows that there is no merit in the claim of increased food production. It is merely an echo of promises made before the law went into effect. The stimulating effect of high prices of farm products governs production when combined with the patriotism of the owners of the 99 percent of the farms which do not carry Federal Land Bank loans. Food production has been greatly increased but the credit is not due to Federal Land Banks.

So thoroughly has this "increased food production" propaganda been worked that several hundred newspapers were persuaded to donate about $70,000 worth of advertising in May and June for the sale of the Federal Land Bank bonds. Shrewd appeals to patriotism did much to make the public think that food production would be increased, but they did not sell the bonds to people receiving small incomes nor prevent alert men of wealth from getting most of them.

LOSS OF RECORDING TAX

In some states other losses would be sustained in addition to valuation taxes. In Minnesota, New York, Oklahoma, Michigan, Alabama and some other states a special recording tax is charged on mortgages. This tax is lost on Federal Land Bank mortgages. They are held to be free from the recording tax. There have been no test cases in the courts.

HELP THE POOR FIRST

It is perfectly consistent and economically wise for governments to make donations to drouth sufferers and fire sufferers or to the struggling poor. But if the government intends to become a wholesale dispenser of charity and a grantor of subsidies, its first attention should be given to those most in need. There are millions who need aid more than money borrowers who already each own and control property to the value of $14,000. It is unjust to the more needy to use the proceeds of public taxation and national Liberty bonds for cheap loans to the well-to-do when poorer people are in sore need of aid.

No other country in the world has a rural credit system which grants greater exemption to owners of bonds of privately owned banks than it grants to the owners of government bonds.

THE NEW ZEALAND SYSTEM PROFITABLE

In New Zealand the government conducts the loan business for the aid of the settlers. The New Zealand system provides that small loans shall have the preference over large loans. Applications for loans of $2,500 or less shall have priority over applications for larger loans. The result is that the New Zealand loans average small and the most aid is given to persons of small capital.

For the year ending March 31st, 1915, according to the New Zealand year book 1,453 loans were made averaging about $1,500 each. Only 620 loans were made in the year exceeding $2,500 each. Only two were made as large as $10,000. The essential element in keeping the loans so well distributed is the provision giving priority to the smaller applications.

The money is obtained by issuing bonds, which are obligations of the government. According to the New Zealand Government reports much of this money has been borrowed at three percent. In 1915 the average interest rate on New Zealand's bonded debts of all kinds was a little above 3½%. The loans are made at five percent with a special rebate of half of one percent if payments are made when due. The margin is sufficient to make a profit to the New Zealand treasury.

For the year ending March 31st, 1915, the net profits on the New Zealand loans to settlers was $287,170.00 (57,434 pounds) after paying clerk hire and all expenses. That is quite a contrast with the American system with its tax exempt bonds, its $8,891,270 free loan of capital and the salaries of a host of Federal Farm Loan Bureau officials at Washington all causing higher taxes to be levied by Congress.

The New Zealand system is a benefit to taxpayers instead of a burden.

LARGE LOANS FAVORED AND LAW EVADED

The average large size of the Iowa loans ($6,731.00) shows that the preference for small loans is not given by the American system. Loans of $10,000 are made wherever possible by the Federal Land Banks. The Federal Farm Loan Act specificially provides that no loans shall be made in excess of $10,000. This provision was wisely put into the law in order to secure a distribution of the loans among people of moderate means.

Strict compliance with the intent of the law is not required by the Federal Land Banks. Borrowers are encouraged to make larger loans by resorting to the subterfuge of deeding part of their real estate to other members of their families for a sufficient time to enable the other persons to execute mortgages securing other loans. By this plan a man and wife can readily borrow $20,000 doubling the limit authorized by law. Such double loaning is not infrequent.

The Federal Farm Loan Board in its first annual report showed that it is favorable to large loans as it recommended that the law be amended to permit the making of $25,000 loans.

The annual loss through tax exemption, local tax and income tax if the bonds were held by very wealthy persons would at the rate of $38.00 per thousand be $95.00 on a loan of $2,500 while it would be ten times greater or $950.00 on a loan of $25,000.

The man who can borrow $25,000 must have real estate exclusive of buildings worth $50,000 or he must have real estate which with twenty percent of the value of the buildings added equals $50,000. Land worth $48,000 carrying buildings worth $10,000 would qualify the farm for a $25,000 loan. The borrower would own a farm worth $58,000 in addition to personal property.

Would a congressman dare face his constituents if they knew he voted for a system to give government aid to a man owning $58,000 worth of property?

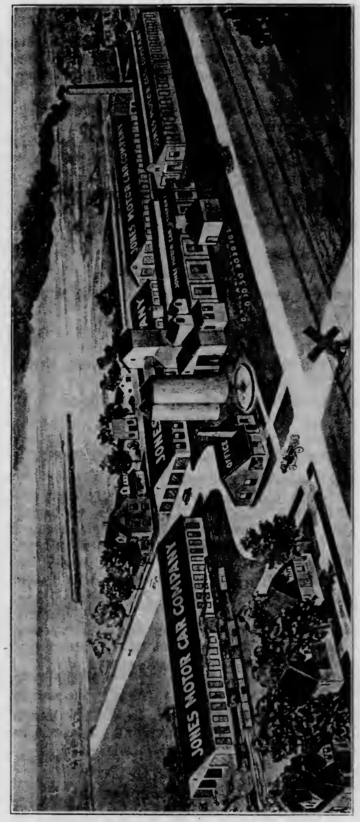
The tax exempt bonds issued under the Federal Farm Loan Act, both Federal Land Bank bonds and Joint Stock Bank bonds, when held by wealthy owners, necessarily impose a burden of $950.00 every year on the national treasury and local tax payers for every $25,000 loan made. Thousands of tax payers and consumers less able to do so than the wealthy borrower would be compelled to carry additional burden to pay the $950.00 thus lost. For the slight benefits they receive such borrowers ought not to be the objects of public charity any more than the millionaire bond holders.

FINANCING AN AUTOMOBILE FACTORY

The evils of this tax exemption and the extent to which it can be carried contrary to the intent of the law is illustrated by a loan recently made by the Federal Land Bank at Wichita, Kansas. The Wichita bank loaned $12,000 to a manufacturer of automobiles. Mr. John J. Jones has for fifteen years or more been a business man at Wichita and in no sense a farmer. He owns an automobile factory and manufactures the "Jones Six" automobile. Adjoining his automobile factory Mr. Jones owned 128 acres of land. The value of the land was largely due to its location rather than to its special adaptability to the production of food. The title to this 128 acres of land was in the name of Mr. John J. Jones. He deeded 80 acres to his wife. She borrowed $8,000 from the Federal Land Bank on the 80 acres and he borrowed $4,000 on the remaining 48 acres. This land is within a few minutes' walk of the Wichita Federal Land Bank. The occupation of Mr. Jones and all of the facts and circumstances were well known or could have been known to all of the bank officials. This is not a case where an inspector can be made to take all of the blame.

The Wichita bank officials may claim that they thought Mr. Jones needed this $12,000 in order to increase the production of food by raising beans, wheat or sweet potatoes on the land. Those who are familiar with the capital demands of an automobile business will be suspicious that the $12,000 will be used to increase the production of the "Jones Six". This is broadening the purpose of the Federal Farm Loan act much more than its originators intended.

The accompanying picture of the Jones Motor Co. factory was copied from the latest catalogue issued by that enterprising corporation. The land adjoining such a fine factory would probably soon be good property to cut up and sell as town lots. Such a speculation carried on Federal Land Bank 5½% money furnished by tax exempt bonds ought to make a good profit for the owner in a few years. To the ordinary enterprising automobile manufacturer the probable increase in value of the land would be more of an inspiration than a desire to increase the production of food.



Home of the Jones Motor Car Company, Builders of High-Class Automobiles and Trucks, Wichita, Kansas.

(This cut has been reproduced from the latest catalog issued by the Jones Motor Co. of Wichita, Kansas.)

The Federal Farm Loan Board in its first annual report showed that it is favorable to large loans as it recommended that the law be amended to permit the making of $25,000 loans.

The annual loss through tax exemption, local tax and income tax if the bonds were held by very wealthy persons would at the rate of $38.00 per thousand be $95.00 on a loan of $2,500 while it would be ten times greater or $950.00 on a loan of $25,000.

The man who can borrow $25,000 must have real estate exclusive of buildings worth $50.000 or he must have real estate which with twenty percent of the value of the buildings added equals $50,000. Land worth $48,000 carrying buildings worth $10,000 would qualify the farm for a $25,000 loan. The borrower would own a farm worth $58,000 in addition to personal property.

Would a congressman dare face his constituents if they knew he voted for a system to give government aid to a man owning $58,000 worth of property?

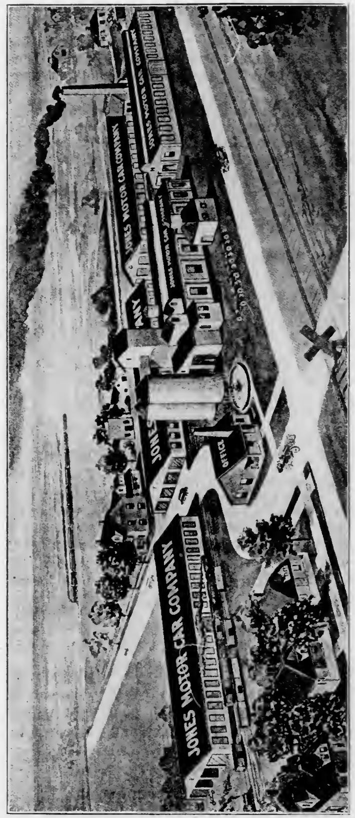
The tax exempt bonds issued under the Federal Farm Loan Act, both Federal Land Bank bonds and Joint Stock Bank bonds, when held by wealthy owners, necessarily impose a burden of $950.00 every year on the national treasury and local tax payers for every $25,000 loan made. Thousands of tax payers and consumers less able to do so than the wealthy borrower would be compelled to carry additional burden to pay the $950.00 thus lost. For the slight benefits they receive such borrowers ought not to be the objects of public charity any more than the millionaire bond holders.

FINANCING AN AUTOMOBILE FACTORY

The evils of this tax exemption and the extent to which it can be carried contrary to the intent of the law is illustrated by a loan recently made by the Federal Land Bank at Wichita, Kansas. The Wichita bank loaned $12,000 to a manufacturer of automobiles. Mr. John J. Jones has for fifteen years or more been a business man at Wichita and in no sense a farmer. He owns an automobile factory and manufactures the "Jones Six" automobile. Adjoining his automobile factory Mr. Jones owned 128 acres of land. The value of the land was largely due to its location rather than to its special adaptability to the production of food. The title to this 128 acres of land was in the name of Mr. John J. Jones. He deeded 80 acres to his wife. She borrowed $8,000 from the Federal Land Bank on the 80 acres and he borrowed $4,000 on the remaining 48 acres. This land is within a few minutes' walk of the Wichita Federal Land Bank. The occupation of Mr. Jones and all of the facts and circumstances were well known or could have been known to all of the bank officials. This is not a case where an inspector can be made to take all of the blame.

The Wichita bank officials may claim that they thought Mr. Jones needed this $12,000 in order to increase the production of food by raising beans, wheat or sweet potatoes on the land. Those who are familiar with the capital demands of an automobile business will be suspicious that the $12,000 will be used to increase the production of the "Jones Six". This is broadening the purpose of the Federal Farm Loan act much more than its originators intended.

The accompanying picture of the Jones Motor Co. factory was copied from the latest catalogue issued by that enterprising corporation. The land adjoining such a fine factory would probably soon be good property to cut up and sell as town lots. Such a speculation carried on Federal Land Bank 5½% money furnished by tax exempt bonds ought to make a good profit for the owner in a few years. To the ordinary enterprising automobile manufacturer the probable increase in value of the land would be more of an inspiration than a desire to increase the production of food.



Home of the Jones Motor Car Company, Builders of High-Class Automobiles and Trucks, Wichita, Kansas.

(This cut has been reproduced from the latest catalog issued by the Jones Motor Co. of Wichita, Kansas.)

On the basis of $38.00 per thousand loss through tax exemption this loan to the automobile manufacturer will cost the American people $456 every year in addition to the 5½% of interest paid by Mrs. Jones and Mr. Jones and the Jones Motor Company.

As the effects of tax exemption have compelled the Secretary of the Treasury to decide to furnish the money for future farm loans out of the public treasury and as many tax exempt bonds are held by rich bond holders every tax payer can now know he has a small interest in promoting the automobile business.

Without doubt Mr. Jones could have borrowed a reasonable amount on his land at six percent from private investors but the large loan of $100 per acre on the 80 acres and the saving to himself of half of one percent interest appealed to him. The public must, therefore, stand the loss of the tax exemption.

There is nothing about the transaction to reflect on the integrity or credit of Mr. Jones. The deal simply shows the unfairness with which the tax exemption can be used. The following three items from the Daily Record published in Wichita show how the law was juggled to work out the scheme:

WARRANTY DEEDS

John J. Jones and Laura Neal to Laura Neal Jones, 10-1-18, E½, S. E. ¼, Sec. 28-26-1E, $1.00.

MORTGAGES

John J. Jones and Laura Neal to Federal Land Bank, 7-20-18, W½, S. E. ¼, ex 32 A off W. side Sec. 28-26-1E, $4,000.

Laura Neal Jones and John J. to same, 7-20-18, E½, S. E. ¼, Sec. 28-26-1E, $8,000.

PAYING THE DIFFERENCE TO MILLIONAIRES

To take another view of the effects of the exemption: The government substantially makes this appeal to a person having an income of $2,000: "Loan $1,000 to the Federal Land Bank at 5%. You have no income tax to pay so the loan will net you 5%". The man with the small income does not invest, because he can make more by purchasing taxable securities bearing six or seven percent interest.

The government also makes this appeal to a person having an income in excess of $1,500,000. "Loan $1,000 to the Federal Land Bank at 5%. You are required by law to pay an income tax of 66% on the amount of your income in excess of $1,500,000. In order to net you 5% a taxable security must yield over 14% interest annually. The government will therefore pay you the difference by giving you an exemption allowance so that this 5% bond will be as productive to you as a taxable security paying more than 14% interest. The tax payers of the country will make up the deficit to the national treasury."

The publicity department of the Federal Land Banks may deny that there is any deficit thus caused. They may claim that the bonds were brought by small investors who are not entitled to any exemption.

FALLACIES OFTEN POPULAR

The advocates of tax exemption are enthusiastic for its continuance because they claim it is a popular doctrine. Its temporary popularity does not necessarily indicate a permanent value. Many fallacious doctrines like the Free

Silver delusion and the greenback craze have had temporary popularity. The popularity of public lotteries has been so great that nearly all civilized countries have found it necessary to suppress them as contrary to public policy being evils detrimental to the public good.

In his address at the American Bankers Convention in Chicago in 1918 Mr. Otto H. Kahn of New York City said:

> "Nothing is easier to start, nothing moves faster when once started, than economic fallacies. Nothing is harder than for sober unvarnished truth, loaded down with the weight of the realities of existence, to catch up with those fallacies. It invariably does in the end, but meanwhile the fallacies on their long start and rapid flight may have wrought vast harm, as we have recently seen exemplified in Russia."

At the present time the Federal Farm Loan system is walking on stilts—the high stilts of tax exemption—a very treacherous and unstable footing.

When it is thoroughly understood that every year 160 farmers are obliged to suffer that one may be favored, the majority of farmers will not favor the exemption.

When it is generally known that 604 families are required to pay more for the cost of living that one family may receive small benefits, the majority against tax exemption will be overwhelming.

No political party and no individual in public life will then favor this unfair tax exemption preference by advocating or defending it.

The eloquence of idealistic dreamers and socialistic economists will not prevail against the inexorable arguments of the tax receipt and the family expense account.

ENACTED AS A NON-PARTISAN MEASURE

The Federal Farm Loan act was enacted as a nonpartisan measure. Partly lines were not drawn when the appropriation of $200,000,000 was made to keep the system alive in January, 1918. The tax exemption feature ought to stand or fall on its actual economic merit. Bonds ought to be sold on their market value in competition with other securities.

It is not the province of the government in time of peace to purchase food at a high price and sell it at a lower price at a loss to people not in need of charity. Neither is it the legitimate business of government to incur heavy losses through special tax exemptions in order to save a small fraction of that loss by a slight temporary reduction in interest rates to a small proportion of the public.

The present exemptions granted are far in excess of the original intent of the law and are due to the effect of subsequent revenue laws.

The title of the act states that it is "to provide capital for agricultural development" and "to equalize rates of interest on farm loans."

It was not intended to be developed into a system for granting enormous exemptions to very rich people in exchange for funds to be loaned to a few borrowers at a rate only slightly reduced below the commercial market rate for such loans.

Some of those who favor this tax exemption provision contend that the Federal Farm Loan system would be destroyed if the tax exemption were changed. It would merely put it on a legitimate basis where it could demonstrate its honest value for the purposes for which it was created.

Repeal of the tax exemption feature would make the bonds less desirable as investments to persons having large incomes. They would then be required to pay more taxes. The law was not enacted for the benefit of millionaires.

No discreet friend of the Federal Farm Loan act will specifically claim publicly that the existence of the system depends upon granting exemptions worth $38.00 every year to persons having incomes in excess of $1,500,000 on every $1,000 five percent Federal Land Bank bond they own.

Repeal of the tax exemption feature would make the bonds more salable by removing the question of doubt as to their validity.

Repeal of the tax exemption feature would not detract from the value of bonds to small investors, because to millions of families whose incomes are below $2,000 per year the tax exemption is of no value.

The repeal of the tax exemption feature of the Federal Farm Loan act might interfere with the development of a big political machine, but it was not created for political purposes. It would in no way interfere with the legitimate and proper functions of the rural credit system. It would in no way be detrimental to the interest of agriculture when the welfare of all of the farmers is considered.

CORRECTING A LEGISLATIVE BLUNDER

When the law was first discussed and formulated in the preliminary agitation and when the investigations were made in Europe there was no Federal income tax. When the law was enacted in 1916 the income tax law of 1913 was in force imposing only 6% tax on large incomes. When the first sale of Federal Farm Loan bonds was made in the summer of 1917 the income tax on large incomes was 12%, under the act approved September 8th, 1916. At the present time under the act of October 3rd, 1917, the tax on the larger incomes is increased to 66% and 67%. Repeal of the tax exemption feature of the act would be in fact a restoration of the act to the original conditions when it was first suggested. Repeal would be the correction of an accidental legislative blunder.

Several of the Federal Land Banks claim to be self supporting. So far as their own stockholders are concerned that may be true but when considered on the basis of cost to the American people they are run at a tremendous loss.

With $8,891,270 or the original $9,000,000 of capital furnished to them free from the national treasury they have a great advantage at the start. With wealthy investors subsidized to the extent of two-thirds of their income, their securities have exceptional attractions to people with large incomes.

The Federal Land Banks ought to be successful as long as a tax burdened public will submit to paying for these two artificial aids.

TAX SLACKING WILL NOT BE PERMANENT

The best friends of the Rural Credit system are those who favor putting it on a sane and a sound permanent financial basis. The much lauded rural credit systems of New Zealand and other countries are not charitable institutions. America will not long sustain the rural credit system as a charitable institution.

In times of low taxation and cheap living the public overlooks many incidental items of expenses. The enormous cost of the war will make American taxation of all forms very heavy for several generations. The public will be sensitive and critical of any special privileges granted which increase the taxes or living expenses of the masses. People will be jealous of those who shirk tax loads. Our Government is a Government of all of the people and responsive to public sentiment which will urge repeal of special privileges. The practical results of tax exemption merit the careful study of statesmen of all political parties.

Leading financial editors of the country have commended the arguments against tax exemption.

OPINIONS OF FINANCIAL EDITORS

The United States Investor of Boston, in commenting upon the subject said:

> **"The Farm Mortgage Bankers Association of America has recently done a public service by showing how heavy may be the loss, in actual dollars and cents, that the Government may suffer, from the tax exempt feature of the Federal Farm Loan Bonds."**

The San Francisco Bulletin said:

> **"It is apparent that there should be some method of including this form of investment in the tax program, since it comes in competition with war issues that have not the same tax exemption and do not receive such high interest yields."**

The St. Louis Globe-Democrat said:

> **"The Federal Farm Loan measure was enacted before the war and when few dreamed of such a large supertax on incomes. It is not good business for the government to continue to issue these bonds under such conditions. To say the least, the tax exemption should be no greater than that of the great mass of Liberty Bonds. Congress quickly recognized the mistake it made in exempting the first issue of Liberty Bonds from supertaxes. It should be as prompt to amend the federal farm loan act so as to shut off the possibility of a loss of millions in taxes without substantial benefit to the farmers of the country."**

The Financial World of New York said:

> **"Why should farm bonds be selected as a tax exempt security when Congress, discovering the tendency of tax slackers to get from under heavy burdens which we all should bear equally in this period of war, eliminated the tax exemption from the second and third Liberty loan save a small amount"**

The Sioux City Daily Tribune in an editorial favorable to the Federal Land Banks conceded the error of the tax exemption. The Tribune said:

> **"There is no harm in admitting that tax exempt bonds of all kinds constitute an interference with the revenue systems which have been developing of recent years, and which will develop still further, along the same line, in the years to come. Individual incomes are exactly what they are, regardless of the source of the income and their comparative liability should not be complicated in any way."**

APPENDIX

Report of Committee on War Finance

On the subject of "Exemption from Taxation," the Committee on War Finance of the American Economic Association, at its annual convention in December, 1918, presented the following in its report:

The strongest argument in favor of exempting Federal bonds from taxation is that they will sell at a higher sum and thus yield a greater return to the Government. Why should the Government tax its own securities, it is asked. In either case, so the argument runs, the aggregate sum will be the same. Although this may be true under normal conditions with proportional taxes, when the rate of taxation remains unchanged, not only is this argument without force under the conditions which have obtained in the present war, but the practice has resulted in injustice. Since a large part of the war revenues have been, and are being, obtained from highly progressive income taxes, the possession of tax-exempt bonds, bought before the rates were raised, has afforded an unfair advantage to the large income tax payer. Moreover, since the loan has been taken by recipients of small incomes as well as by those of large incomes, the price has not been enhanced by the full amount of the exemptions granted, and consequently the gain to the Government from the lower interest rate will not be as great as the loss in revenues from the income tax. In the case of the first Liberty Loan the bonds unfortunately run for 15-30 years, the longest of any of the issues. The original injustice will thus be perpetuated for an unduly long time. Happily, this discrimination has been largely, though not entirely, corrected in subsequent bond issues.

The purpose of the exemption was to make the bonds more attractive and thus to permit their floating at a lower rate of interest than would otherwise have been possible. If at any time they should fall below par, so it was argued, it would be possible by raising the rate of the normal income tax to bring up their value again. Such a method, however, was both uncertain and expensive. It was expensive because the demand for tax-exempt bonds is confined to those who would profit by this arrangement, and the amount to be floated successfully would depend upon the number of such persons. If the bonds are to be made attractive to the non-income tax payers they must bear a higher interest rate than the other group would be willing to accept. Hence the saving in interest would not be as great as the remission in taxation. It is also an uncertain and clumsy procedure, for the Treasury cannot affect the marketability of the bonds as readily by the indirect method of changes in the rate of the income tax as it can by direct changes in the rate of interest. Moreover, the policy of tax exemption, never entirely abandoned, has introduced a certain element of discrimination as between the different bond issues.

The Committee on War Finance of the American Economic Association, from whose report the foregoing is quoted, was composed of the ablest economists in the world.

Edwin R. L. Seligman, of Columbia University, was Chairman. He has been a member of the New York City Advisory Committee on Taxation and Finance, and of President Roosevelt's Committee on Statistical Reorganization. Among books on economics of which he is the author are "*Progressive Taxation in Theory and Practice*" and numerous other works on financial and economic subjects.

Ernest L. Bogart is the author of leading works on financial topics, and Professor of Economics at the University of Illinois.

Chas. J. Bullock is Professor of Economics at Harvard, and the author of numerous works on economics, taxation and finance.

Fred R. Fairchild, of Yale University, has been an expert on taxation for the United States Forest Service, editor of the "*Yale Review*," and is the author of numerous standard works.

Henry B. Gardner is Professor of Economics at Brown University, and has made a specialty of works on municipal finance.

Robert M. Haig is a distinguished economist at present connected with Columbia University.

Jacob H. Hollander was Treasurer of Porto Rico and special investigator of financial systems for the United States Government. At present he is Professor of Finance and Economics at Johns Hopkins University.

Edwin W. Kemmerer has been Economic Advisor of the United States Government, Financial Advisor to the United States Philippine Commission, Financial Advisor to the Government of Mexico, and is the author of numerous standard works on finance.

Alexander D. Noyes is the well-known financial editor of the *New York Evening Post*, lecturer and author.

Wm. A. Scott is known as the author of "*Money and Banking*," numerous other works, and as Director of the School of Commerce of the University of Wisconsin.

Carl C. Plehn is associated with the University of California. "*Revenue Systems of State and Local Governments*" and "*Government Finance*" are among the leading works from his pen.

H. Parker Willis is well known to every American banker because of his connection with the Federal Reserve Board, with which he was for a long time associated. He was expert for the Ways and Means Committee of the House of Representatives for many years, and also of the House Committee on Banking and Currency. He was joint author of the report of the Monetary Commission and author of "*American Banking*," etc.

Benefits Unequally Bestowed—Federal Land Bank Bonds at a Premium

Hon. George E. Roberts, the well-known economist, who edits the Bulletin of the National City Bank of New York, in the October issue said of the tax exemption of bonds:

Passing from the legal aspects of the case, there is much to be said in favor of subjecting State and municipal bonds, or the income therefrom, to the Federal taxation. They are subject to State and local taxation, except where made exempt within the State of issue. The amount of such securities outstanding is approximately \$5,000,000,000, a very large sum to be exempt from any and all burdens which the National Government may have to assume. Moreover, the amount is increasing rapidly, and the privilege of exemption during a period when Federal taxation is heavy will have a tendency to encourage municipal undertakings on an extensive and possibly an impracticable scale. It is not in the public interest that municipal undertaking should be promoted in such manner. If municipalities are going into all sorts of business enterprises they should be held to account upon business principles, and required to demonstrate their ability to conduct them upon the same basis of costs as that upon which private owners must conduct enterprises of the same kind.

The public is compensated in some degree for the loss of tax revenues by lower interest rates upon money borrowed, but these benefits are restricted in their distribution and do not reach the same people who suffer by the exemptions. Why, for instance, should the farmers everywhere pay higher taxes in order that municipalities should borrow money more cheaply?

On the other hand, we have the exemption of Federal Land Bank Bonds for the purpose of promoting agricultural development, an object in itself highly desirable, but which does not require a subsidy. If the Federal and State governments go on creating exemption privileges in this manner the task of distributing the burdens of government will become infinitely complex and troublesome. The benefits of such exemptions are so irregularly and unequally bestowed, and involved in so much obscurity, that there is great uncertainty about who gets them. Although exemptions are always granted to favor certain groups of borrowers, the lenders have to take all the criticism and blame. They are invited by legislation and the public authorities to buy the securities upon the terms offered, and might reasonably assume that their action would have public approval, but, having made the purchases, they are quite sure to find themselves regarded as a privileged class. In the interest of good understanding and social peace it is desirable that there shall be no occasion or excuse for grievance of this kind.

Federal Land Bank 5% Bonds, as a result of the exemption provision, are selling at a premium of 4 to 5 per cent.

The Farm Mortgage Bankers' Association of America is vigorously challenging the policy of exempting Federal Land Bank Bonds from taxation. Mr. Chassell, its Secretary, in a recent article calls attention to "H. R. No. 8827," a bill now pending to establish personal credit banks, to be operated in conjunction with the Federal Land Banks, all capital employed to be free of taxation, and sums up the argument against tax-exempt securities as follows:

> The great problem of the present time is to equalize the burden of taxation so that all persons and property may bear their just proportions. If one class of property is relieved from taxation, it to the same extent adds to the taxes borne by other property. The gross amount of taxes raised is not reduced. The expenses of the Government must be met. The taxes are apportioned to the persons and property subject to taxation.

A continuance of our present reckless system of exempting securities from taxation will result in the creation of a favored class of tax-exempt aristocrats who, while enjoying all the benefits of public utilities and police protection, will contribute nothing to their maintenance. This situation will also cause serious dissatisfaction among the masses of wage-earners and property holders who will resent the injustice of being compelled to carry the entire burden.

It is impossible now and it would be unjust, if possible, to enact any laws depriving securities already issued of their tax-exemption features. The remedy will be to enact laws requiring future issues of securities to bear their just proportions of the public burden. Congress can correct the blunders of the past regarding future issues of Federal Land Bank Bonds and it can prevent the exemption of personal credit bank bonds. The several States regulate the taxation of their municipal securities and no State will be dependent upon other States or upon National legislation in enacting laws requiring future issues of local securities to bear their fair share of local taxes.

In the State of Ohio, six years ago, an inquiry developed that outstanding securities issued without the State and tax-exempt within the State aggregated $218,754,113, and, moved by this showing, the legislature repealed the exemption privilege as applied to future issues.

Encourages Speculation

An experienced observer of farm development says:

The proposition to increase the amount to $25,000.00 that may be loaned to one person (it is now $10,000.00) would be to increase speculation in land. Instead of decreasing landlordism the effect would be to increase it. Anyone owning a farm, and in many cases one who owns a large equity in his farm, could easily acquire another farm. Very few real farmers require loans exceeding the present limit. Even now the limit of loans to $10,000.00 is being evaded by dividing the farm among the family so the loan can be increased and more land purchased.

There could be nothing done that would more surely put land values out of the reach of the man with limited means and increase the acreage held by the already large holders.

Great Increase in Tax-Exempt Securities

The danger to the ordinary taxpayer from the flood of billions of tax-exempt securities is well set forth by Mr. O. M. Corwin, of the Wells-Dickey Company of Minneapolis, a careful student of financial affairs. He says:

There are four billion dollars of farm mortgages outstanding. It is the hope of the Federal Farm Land Board to divert the farm mortgages from private investors to itself. Joint Stock Land Banks are being organized constantly and largely by people who have never had a wide experience in the farm loan business, but the market for these tax-exempt bonds is so good that they can be sold almost as quickly as they are printed.

Nobody knows how much money the home-builders' plan incorporated in the law might involve. Ten billion dollars would not be an extravagant statement. There are five billion dollars of municipal bonds now outstanding and there is a probability of billions more being issued. Then, if the Personal Credit Bill is passed, there will be another billion dollars added to tax-free bonds. With these possibilities—I almost might say probabilities, unless somebody wakes up to the situation—it is not unreasonable to think that at the end of ten years there might be as much as twenty-five billion dollars of tax-free bonds outstanding, not including the Liberty Bonds which have some tax-free features.

END OF
TITLE